

You Don't Have to Spend a Buck to Have a Cost

Last Friday night you decided to stay home and watch television instead of going to the movies with your friends. Did this decision involve any cost? Yes, because even though you didn't spend a buck, there was an *opportunity cost*, which represents the best alternative that you did not choose, such as working or participating in another activity.

Whenever consumers, producers and governments make choices, they base their decisions on the costs involved. In economics, costs include not only the out-of-pocket expenses you'd typically consider, called *explicit* costs, but also *implicit* costs, which measure the value of resources that could have been used elsewhere.

For instance, if you decide to go to the movies, your explicit costs may include the ticket, popcorn and soda. Additionally, you would include the implicit costs, such as the pay you would have earned had you worked during the time required to go to the movies. Economists refer to these combined costs as opportunity costs.

When you base decisions on explicit costs only, you can measure the number of dollars coming into your wallet versus the number flowing out. But rational people consider more than invoices and receipts when they compare marginal benefits with marginal costs. Extra benefits and extra costs include implicit costs, so making decisions by merely considering the flow of funds into and out of your wallet will lead to decisions that fail to maximize your satisfaction.

- For each of the following situations, list at least two explicit costs and two implicit costs. Place them in the correct column.

	Explicit	Implicit
(A) You decide to go to college.	<hr/> <hr/>	<hr/> <hr/>
(B) You take a job after school.	<hr/> <hr/>	<hr/> <hr/>
(C) You study for and take an AP Economics Examination.	<hr/> <hr/>	<hr/> <hr/>
(D) A stay-at-home dad returns to work.	<hr/> <hr/>	<hr/> <hr/>

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	Explicit	Implicit
(E) Family members work in their parents' restaurant.		
Child's (employee) viewpoint	_____	_____
	_____	_____
	_____	_____
Parents' (employer) viewpoint	_____	_____
	_____	_____
	_____	_____
	_____	_____

2. Pick one of the situations in Question 1, and explain why the decision maker must have decided that the benefits he or she received exceeded, equaled or fell short of the opportunity costs to engage in the activity.